

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 EURE-00 AID-05 CIAE-00
EB-08 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 L-03 H-02 PRS-01 PA-02 AGRE-00
/126 W

-----130569 311548Z /46

P R 311446Z AUG 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 7819
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

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USECC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA
E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD AUG 25-31

SUMMARY: THE POUND STRENGTHENED, REFLECTING WEAKNESS OF
OTHER CURRENCIES. MANUFACTURING INVESTMENT PICKED UP
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SLIGHTLY, BUT BELOW EXPECTATIONS. CONSUMER CONFIDENCE
APPEARS TO BE BETTER, BUT WITH NO GREAT FAITH IN THE
GOVERNMENT'S ABILITY TO CHECK TRADE UNION DEMANDS. NA-
TIONAL INSTITUTE CALLS FOR PRUDENT REFLATION. END
SUMMARY

1. DEPARTMENT OF INDUSTRY FIGURES SHOW THAT CAPITAL

SPENDING BY INDUSTRY IS RUNNING WELL BELOW THE LEVEL INDICATED BY SURVEYS. MANUFACTURING INDUSTRY'S CAPITAL INVESTMENT IN THE SECOND QUARTER (AT 1970 PRICES S.A.) WAS 432 MILLION POUNDS. THIS IS THE HIGHEST QUARTERLY FIGURE IN TWO YEARS BUT EXPENDITURE IN THE FIRST HALF OF THE YEAR WAS ONLY 2.6 PER CENT ABOVE THE AVERAGE FOR 1976 AND ROUGHLY 16 PER CENT BELOW THE AVERAGE FOR PEAK YEAR OF 1974. THE LIMITED RECOVERY IS TERMED BY SOME OBSERVERS TO BE "NOT SURPRISING" IN VIEW OF THE LEVELS OF SPARE CAPACITY REPORTED IN MUCH OF INDUSTRY. THE FIGURES ARE IN SHARP CONTRAST TO THE RESULTS OF INTENTIONS SURVEYS WHICH HAD EARLIER PREDICTED INCREASES OF 15-20 PER CENT FOR THIS YEAR. THE LATEST DEPARTMENT OF INDUSTRY SURVEY (IN MAY) POINTED TO A 6-10 PER CENT INCREASE IN 1977, ALTHOUGH ANNUAL RATES OF INCREASE OF THE LEVEL IN 1977 NOW APPEAR PROBLEMATIC.

THE LEVEL OF INVENTORIES ROSE BY 152 MILLION POUNDS (1970 PRICES S.A.) IN THE SECOND QUARTER FOLLOWING THE RISE OF 248 MILLION IN THE FIRST QUARTER. THE BULK OCCURRED IN MANUFACTURERS' INVENTORIES OF FINISHED GOODS AND IN WHOLESALE INVENTORIES WHICH SUPPORTS THE VIEW THAT STOCK BUILDING WAS LARGELY INVOLUNTARY AS A RESULT OF WEAK CONSUMER DEMAND. THE RATIO OF STOCK TO OUTPUT ROSE DURING THE QUARTER FROM 104.1 TO 107.0, REFLECTING BOTH HIGHER INVENTORIES AND LOWER OUTPUT. THIS IS THE HIGHEST LEVEL SINCE DECEMBER 1975, AN IMPLICATION

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BEING THAT FOR THE REST OF THE YEAR THERE WILL BE ONLY A SMALL RECOVERY IN CONSUMER DEMAND AND THAT MANUFACTURERS WILL HOLD DOWN OUTPUT TO CUT BACK INVENTORY LEVELS.

THE FOLLOWING ARE THE FIGURES PUBLISHED AUGUST 25 BY THE DEPARTMENT OF INDUSTRY FOR THE FIXED CAPITAL EXPENDITURE OF MANUFACTURING, DISTRIBUTING, SERVICE AND SHIPPING INDUSTRIES AND FOR THE STOCKS ALL SEASONALLY ADJUSTED AT 1970 PRICES:

MILLION POUNDS (1970 PRICES)
INVESTMENT

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/126 W

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P R 311446Z AUG 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 7820
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	TOTAL	MFTG	STOCKS
1974	4,858	2,028	606
1975	4,120	1,745	-605
1976	3,836	1,659	37
1974 Q1	1,223	509	-69
Q2	1,204	504	284
Q3	1,213	504	345
Q4	1,218	511	46
1975 Q1	1,090	472	-98
Q2	1,054	446	-186

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Q3	1,014	420	-218
Q4	961	407	-103
1976 Q1	940	405	59
Q2	923	407	-131
Q3	1,001	42L	28
Q4	972	426	81
1977 Q1	996	419	248
Q2 P	988	432	152

P - PROVISIONAL

2. THE FINANCIAL TIMES CONSUMER CONFIDENCE SURVEY TAKE AT THE BEGINNING OF AUGUST SHOWS A HIGH LEVEL OF SCEPTICISM ABOUT THE GOVERNMENT'S COUNTER INFLATION POLICIES, WITH ALMOST 40 PER CENT OF THOSE INTERVIEWED BELIEVING THAT THE TWELVE -MONTH LIMIT ON THE FREQUENCY OF PAY RISES WILL NOT SUCCEED IN REDUCING THE RATE OF INFLATION A SLIGHTLY LARGER PORTION THOUGHT THE POLICY WOULD SUCCEED, WHILE JUST OVER A FIFTH SAID THAT THEY DID NOT KNOW. DESPITE THE NUMBER OF PEOPLE WHO DOUBTED WHETHER THE AGREEMENT WITH THE UNIONS WOULD SUCCEED, CONSUMER CONFIDENCE AS MONITORED BY THE F.T. MONTHLY INDEX SHOWED A MARKED TURN FOR THE BETTER, ALTHOUGH THOSE EXPECTING UNEMPLOYMENT TO INCREASE STILL OUTNUMBERED THOSE EXPECTING IT TO FALL.

3. THE NATIONAL INSTITUTE PUBLISHED ITS AUGUST FORECASTS, REVISING THE EXPECTED LEVEL OF GDP GROWTH DOWNWARDS IN 1977, UPWARDS IN 1978, AND CALLED FOR THE GOVERNMENT TO REPAY EXISTING IMF DEBTS AND INCREASE BUDGETARY EXPENDITURE IN ORDER TO PRUDENTLY EXPAND THE ECONOMY IN 1978. SEE LONDON 14370.

4. LAST WEEK, LETTERS WERE SENT BY THE BANK OF ENGLAND UNCLASSIFIED

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TO THE SEVERAL HUNDRED AUTHORIZED BANKS IN THE U.K. INCREASING THEIR FOREIGN EXCHANGE DEALING LIMITS AND EXPRESSING THESE IN DOLLARS RATHER THAN STERLING. THE MOVE SHOULD BE SEEN AS A REFLECTION OF THE DECLINE IN THE VALUE OF STERLING OVER THE PAST TWO YEARS RATHER THAN IN CONNECTION WITH STERLING'S RECENT STRENGTH. THE MOVE ALSO COMBINES THE PREVIOUSLY SEPARATE TRADING LIMITS ON OPEN DEALING AND ON SPOT AGAINST FORWARD TRADING, GIVING MORE FLEXIBILITY AND LATITUDE TO THE COMPOSITION OF THE BANKS' OVERALL LIMITS. AS A RESULT OF THE MOVE, SOURCES INDICATE THAT THE LIMITS HAVE BEEN INCREASED 15-20 PERCENT, MAGNITUDES VARYING AMONG INDIVIDUAL BANKS.

5. DURING THE WEEK, STERLING CONTINUED TO RISE, BOTH ON A TRADE WEIGHTED BASIS, REFLECTING THE DEPRECIATION OF THE SCANDINAVIAN CURRENCIES, AND AGAINST THE DOLLAR. THE FOREIGN EXCHANGE MARKET ESTIMATES THAT THE BANK OF ENGLAND WAS A FAIRLY HEAVY BUYER OF DOLLARS AND, GIVEN STERLING'S STRENGTH ON WEDNESDAY MORNING, THAT IT IS HOLDING AN UPPER DOLLAR LIMIT OF \$1.7430 UNTIL A MORE SETTLED FOREIGN EXCHANGE PATTERN DEVELOPS ON THE CONTINENT.

OBSERVERS REPORT SOME OF STERLING'S STRENGTH TODAY TO TECHNICAL FACTORS, INCLUDING THE U.S. LABOR DAY WEEK-END. THEY REPORT A PATTERN IN DAILY TRADING WHEREBY THERE IS EARLY MORNING PRECAUTIONARY BUYING OF STERLING FROM THE FAR EAST, AND IN LONDON AND SWITZERLAND. THE LONG POSITIONS ARE HELD OPEN FOR SEVERAL HOURS UNTIL DEMAND FROM NEW YORK CAN BE ASSESSED, WITH THE POSITIONS BEING CLOSED AT THE END OF THE DAY. IN RECENT WEEKS, DEMAND FOR STERLING FROM NEW YORK HAS BEEN TERMED WEAK TO MODEST, BUT WITH STRENGTHENED ACTIVITY SEEN ON TUESDAY, AUGUST 30.

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6. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	(DEC. 1971) EQUALS 100)	GOLD (\$)
8/24	1.7408	61.9	144-5/8
8/25	1.7413	62.0	144-3/8
8/26	1.7420	62.0	145-3/8
8/29	HOLIDAY	-	-
8/30	1.7423	62.3	146-3/8

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CHANGE 8/23-30 UP 0.0021 UP 0.3 UP 2-3/4

7. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
8/24	0.15	0.45	1.02
8/25	0.12	0.55	1.27
8/26	0.12	0.50	1.27
8/29	HOLIDAY	-	-
8/30	0.12	0.80	1.255

CHANGE 8/23-30 WIDE 0.02 WIDE 0.10 WIDE 0.185
(ALL FIGURES IN CENTS)

8. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTH
8/24	5-3/4	#1	6-5/8
8/25	6-3/8	6-3/8	6-5/8
8/26	6-3/8	6-3/8	6-5/8
8/29	HOLIDAY	-	-
8/30	6-1/8	6-3/8	6-5/8

CHANGE 8/23-30 UNCHANGED DOWN 1/8 UNCHANGED

9. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL	
DATE	
8/24	7/16
8/25	5/16
8/26	5/16
8/29	HOLIDAY
8/30	5/16

10. STERLING CERTIFICATES OF DEPOSITS

DATE	1 MONTH	3 MONTHS	6 MONTH
8/24	6-5/8	6-5/8	7

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8/25	6-23/32	6-5/8	7
8/26	6-5/8	6-5/8	7
8/29	HOLIDAY	-	-
8/30	6-19/32	6-5/8	7

CHANGE 8/23-30 UP 1/32 UNCHANGED UNCHANGE

THE MINIMUM LENDING RATE REMAINED AT 7 PER CENT.
THE AUGUST 26 AUCTION SAW THE TREASURY BILL RATE DECLINE
0.0020 PER CENT TO 6.4184 PER CENT. BIDS OF 1.124 MIL-
LION POUNDS WERE RECEIVED FOR THE 450 MILLION POUNDS
TENDERED. THIS WEEK'S AUCTION WILL SEE 450 MILLION
POUNDS TENDERED TO REPLACE MATURITIES OF 500 MILLION.

STREATOR

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, REPORTS, CURRENCIES, INVESTMENTS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Sent Date: 31-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LONDON14522
Document Source: CORE
Document Unique ID: 00
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Executive Order: N/A
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Expiration:
Film Number: D770315-0090
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977084/aaaaacwr.tel
Line Count: 351
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 5687fa56-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
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Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 16-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1535533
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD AUG 25-31 SUMMARY: THE POUND STRENGTHENED, REFLECTING WEAKNESS OF OTHER CURRENCIES. MANUFACTURING INVESTMENT PICKED
TAGS: ECON, UK
To: STATE TRSY MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/5687fa56-c288-dd11-92da-001cc4696bcc
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